

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2018-318-E

In the Matter of:)	
)	
Application of Duke Energy)	PARTIAL PROPOSED ORDER
Progress, LLC, for Adjustment of)	
Rates and Charges Applicable to)	
Electric Service in South Carolina)	

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of Duke Energy Progress, LLC (“DEP” or the “Company”) filed November 8, 2018 requesting authority to adjust and increase its electric rates, charges and tariffs (the “Application”). The Application was filed pursuant to S.C. Code Ann. §§ 58-27-820 and 58-27-870 and 10 S.C. Code Ann. Regs. 103-303 and 103-823.

The Commission has jurisdiction over the rates and charges, rate schedules, classifications of public utilities operating in South Carolina, including DEP, as generally provided in S.C. Code Ann. §§ 58-27-10, et seq. S.C. Code Ann. § 58-3-140(A) vests the Commission with the “power and jurisdiction to supervise and regulate the rates and service of every public utility in this State” Every rate “made, demanded or received by any electrical utility . . . shall be just and reasonable . . .” S.C. Code Ann. § 58-27-810.

In its Application, DEP proposed to increase the mandatory, fixed Basic Facilities Charge (“BFC”) for most residential customers from \$9.06 to \$29.00 per month—an increase of 220 percent. DEP Application, Ex. C, p. 2.¹ As support for the proposed increase in the BFC, the Company used an analysis called the “Minimum System” method to classify certain costs as customer-related in its cost of service study.

The Company’s proposal to increase the BFC was met with vocal opposition from many residential customers who testified at the night hearings in Florence and Sumter. The Office of Regulatory Staff (“ORS”) opposed the Company’s proposal to increase the BFC, citing the impact the increase would have on low-usage customers, many of whom are low-income, and the principle of gradualism in setting rates. In addition, several intervenors—the South Carolina State Conference of the NAACP, Upstate Forever, and Coastal Conservation League (collectively, “SC NAACP et al.”), as well as Vote Solar—opposed both the proposed increase in the BFC as well as the use of the Minimum System method that was the Company’s justification for the BFC increase.

DEP’s predecessor, Carolina Power & Light, discontinued the use of the Minimum System method in 1987, see Order No. 87-902, Docket No. 88-11-E, 11 (August 29, 1988), a decision that the Commission confirmed the following year, Order No. 88-864, Docket No. 88-11-E, 11 (August 29, 1988). The Company has not adduced evidence in this case to show that a switch to the method is warranted. For the reasons discussed in the remainder of this section, the Commission finds that the Company’s use of the

¹ DEP later revised its proposed residential BFC to \$19.03 in rebuttal testimony, and ultimately stated in a letter filed with the Commission that it would not contest a BFC of \$11.78.

Minimum System method was not reasonable and therefore, the Company's request to increase the BFC based on its use will be denied.

II. FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. In its Application, the Company proposed to increase the Basic Facilities Charge for residential customers on the standard tariff from \$9.06 to \$29.00 per month. DEP later revised its proposed residential BFC to \$19.03 in rebuttal testimony, and ultimately stated in a letter filed with the Commission that it would not contest a BFC of \$11.78.

2. The Basic Facilities Charge ("BFC") is a fixed charge on the customer bill that is intended to recover the cost to connect a customer to the distribution grid.

3. In support of the proposed increase in the BFC, the Company classified two categories of costs as customer-related in its cost of service study ("COSS"): (1) the costs of the service drop, meter, billing, and a portion of customer services; and (2) a portion of the hypothetical costs of lines, poles, transformers, and related distribution grid equipment estimated based on the "Minimum System" method.

4. Under the Minimum System method advocated by DEP, the Company attempted to estimate the cost of a hypothetical, minimally sized distribution grid. This "minimum system" is not the distribution system that was actually built by the Company, but rather, represents a hypothetical configuration of the grid that would have been built if each customer had only a minimal amount of usage.

5. In 1987, DEP's predecessor Carolina Power & Light discontinued use of the Minimum System method, and the Company has not adduced evidence in this case to

show that a return to the method is warranted. As this Commission has long recognized, the Minimum System method is based on faulty reasoning, and it should not be accepted in this case. The Commission finds that the Company's use of the Minimum System method in its COSS, and in its design of the BFC, was not reasonable.

6. Under the Basic Customer method advocated by several intervenors, only the cost of the service drop, meter, billing, and customer service are classified as customer-related and thus, deemed appropriate for recovery through the BFC. The Commission finds that the Basic Customer method results in an accurate classification of customer-related costs, and that DEP should henceforth use the Basic Customer method in its cost of service studies and in its rate design.

7. Because the Commission finds that the Company's use of the Minimum System method was not reasonable, the Company's request to increase the BFC based on its use should be denied. In light of general ratemaking principles such as simplicity, customer acceptance, and the need to send accurate price signals that encourage the efficient use of electricity, as well as important policy considerations such as fairness and impacts to low-income ratepayers, the Commission finds that the BFC should be increased only to \$9.23, to recover customer-related costs calculated under the Basic Customer method.

8. The Company does not currently include the BFC as a line item on customer bills. The Commission finds that a bill format that specifically breaks out the BFC as a line item on the customer bill will help customers more easily view and understand their bill and their energy usage. Accordingly, the Company shall be required to implement a new bill format for each rate schedule, specifically breaking out the BFC

as a line item on the bill, as soon as such a format is enabled by implementation of the new Customer Information System, but no later than the spring of 2021.

9. The Company does not currently track or maintain sufficient data regarding customer bill-payment difficulty. The Commission finds that improved collection and reporting of such data would assist the Company, the Commission, and stakeholders in understanding how the Company’s proposed rate designs and programs would affect customers’ ability to pay their electric bills. The Company’s new Customer Information System will make it easier to collect this kind of data. Accordingly, the Company is ordered to work with ORS and interested stakeholders to develop a protocol for collecting information relating to residential customer bill-payment difficulties. The Company is ordered to file with the Commission a proposal for data collection and quarterly reporting following ORS and stakeholder involvement by the end of the first quarter 2020.

10. [Placeholder]

III. EVIDENCE IN SUPPORT OF FINDINGS AND CONCLUSIONS

A. Classification of Customer-Related Costs: The Minimum System Method Versus the Basic Customer Method

1. The Company’s Use of Minimum System Method in Its Cost of Service Study

In its cost of service study (“COSS”), the Company classified two different categories of costs as “customer-related”: (1) the costs of the service drop, meter, billing, and a portion of customer service costs; and (2) costs derived from the Minimum System method, which is based on a hypothetical “minimum” configuration of the Company’s distribution system. The Company’s classification of the first category of costs as

customer-related was non-controversial and consistent with the Basic Customer method, whose use by the Company to classify customer costs has been approved by this Commission for decades. It is the novel classification of hypothetical Minimum System costs as customer-related, and the resulting proposal to recover those costs through the BFC, that was contested by a number of intervenors and public witnesses in this case. Tr. Vol. 4, 695:6-23.

DEP witness Janice Hager was the primary witness supporting the Company's shift to use of the Minimum System method in its COSS. Under the Minimum System method, the Company attempted to estimate the cost of a hypothetical, minimally sized distribution grid. This "minimum system" is not the distribution system that was actually built by the Company, but rather, represents a hypothetical configuration of the grid that would have been built if each customer used only a minimal amount of electricity (for example, enough to power a single light bulb). Hager Direct, Tr. Vol. 4, 701-14:16-19. The approach resulted in a portion of the costs of distribution lines, poles, transformers, and related grid infrastructure being classified as "customer-related" in the COSS. Hager Direct, Tr. Vol. 8, 701-12:18-20.

As support for the Minimum System approach, Witness Hager relied primarily on the 1991 National Association of Regulatory Utility Commissioners Electric Utility Cost Allocation Manual (the "NARUC manual"). Hager Direct, Tr. Vol. 4, 701-13:1-13. That manual is outdated, however, and also incomplete, as pointed out by staff of the Washington Public Utilities Commission ("PUC") at the time. Hearing Ex. 32:24. The criticisms offered by the Washington PUC are consistent with this Commission's perspective in 1991, when the manual was published. The Minimum System approach

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
MAY __, 2019
PAGE 7

has also been criticized by Professor Bonbright and other authorities on utility cost of service and rate design. Barnes Direct, Tr. Vol. 5, 779-33:13 - 779-34:15. As noted in a later NARUC-commissioned report, the Minimum System method, though having superficial appeal, ultimately “seems absurd, since in the absence of any demand no such system would be built at all.” Wallach Direct, Tr. Vol. 3, 254-12:4-10.

ORS generally found DEP’s COSS to be reasonable, but did not specifically address the Company’s use of the Minimum System method. SC NAACP et al. and Vote Solar presented testimony from expert witnesses who opposed the use of the Minimum System method and advocated that the Commission reaffirm its prior order rejecting the method.

Vote Solar witness Justin Barnes and SC NAACP et al. witness Wallach identified numerous flaws in the Minimum System method. The Company assumes that its hypothetical Minimum System would be built with the smallest-sized equipment that it typically installs, rather than with the smallest-sized equipment that would be capable of serving each customer with a minimal load. A distribution system built to actually serve a minimal load would have been built with much smaller-sized equipment, would cost less than hypothesized by the Company’s method, and would affect the entire design of the distribution grid. Barnes Direct, Tr. Vol. 5, 779-29:1 - 779-30:8. The resulting hypothetical, “minimum” grid posited by the Company would have the carrying capacity to meet much more than a minimal customer demand. Tr. Vol. 5, 779-29:13-16.

Witnesses Barnes and Wallach recommended the use of the Basic Customer method to classify customer-related costs—the same method the Company had used from 1987 until the current case. Under the Basic Customer method, only the costs to serve an

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
 MAY __, 2019
 PAGE 8

additional customer—the cost of the service drop, standard meters, billing, and customer service—are classified as customer-related and thus, appropriate for recovery through the BFC. Wallach Direct, Tr. Vol.4, 254-10:5-7; 254-16:14-21; Barnes Direct, Tr. Vol. 5, 781-5:11-15; 779-40:13 - 779-41:6.

In explaining its switch to use of the Minimum System method, the Company cited a concern about cross-subsidization between customers, as well as increasing concern about aligning rates with cost causation. Hager Rebuttal, Tr. Vol. 8, 703-5:12-17. DEP witness Hager testified that the switch was motivated in part by the Company's concerns that customers who have installed rooftop solar are not paying their fair share of distribution system costs. Those concerns were not substantiated with any data, however, and do not justify a change in methodology in this rate case. Indeed, the Company offered nothing to substantiate its professed concern about intra-class cross-subsidization other than the use of the Minimum System method, rendering the Company's argument somewhat circular. Tr. Vol. 4, 361:22 - 362:11. Witness Hager acknowledged that such subsidization only appears in the Company's COSS when the Minimum System method is used. Docket No. 2018-319-E, Tr. Vol. 8, 1935:8-17.² Moreover, in average-cost ratemaking, which necessarily cannot capture the cost to serve each individual customer, some level of intra-class subsidization is inevitable. Docket No. 2018-319-E, Tr. Vol. 8, 1911:10 - 1912:2, 1916:7-12.

The Commission finds that the Minimum System method is based on faulty reasoning and should not be accepted in this case. As discussed above, the approach

² At the hearing in this case, Ms. Hager acknowledged her testimony in response to questions from counsel for SC NAACP et al. during the hearing in Docket No. 2018-319-E, and the Commission took judicial notice of Ms. Hager's testimony as reproduced in Volume 8, pages 1916 through 1935 of the official transcript of the hearing in that case. Tr. Vol. 4, pp. 731-32.

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
MAY __, 2019
PAGE 9

classifies a portion of the distribution grid costs as “customer-related” based on the theory that each residential customer “caused” to be built a hypothetical, minimally-sized distribution system capable of carrying minimal or zero load. But the theory does not reflect reality: in fact, the Company did not build such a minimum system. Docket No. 2018-319-E, Tr. Vol. 8, 1917:14 - 1918:21. Instead, as testified to by SC NAACP et al. witness Wallach, Vote Solar witness Barnes, and DEP witness Hager, the Company built its actual distribution grid to serve customer load. Wallach, Tr. Vol. 6, 1132-6:11- 1132-7:11; Docket No. 2018-319-E, Tr. Vol. 8, 1918:13-25. Therefore, the Commission finds that it is inaccurate to say that customers “caused” a hypothetical minimum system to be built. It is a bedrock principle of utility ratemaking that the Company can only recover the costs for actual investments that are used and useful—not for hypothetical costs of a distribution system not designed to carry customer load.

Though not dispositive, we find persuasive recent decisions of public utility commissions that have also rejected the use of the Minimum System method and similar approaches. *See, e.g., Colorado Black Hills Rate Case*, Colorado Public Utilities Commission Decision No. C16-1140; Proceeding No. 17AL-0477E (2018), pp. 13-16 (adopting the administrative law judge’s rejection of the use of the minimum intercept method, the Commission found that the use of the method “is an anomaly among rate-regulated utilities” and that the resulting “increased customer fixed charge has not been shown to outweigh public interest of allowing customers to control their utility bills and energy efficiency.” In addition, the Commission agreed that “public policy considerations regarding low-income customers and energy conservation require consideration of the reasonableness of level of fixed charges.”); *Florida Power and Light’s Petition for*

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
MAY __, 2019
PAGE 10

Increase in Rates, Florida Public Service Commission Docket No. 080677-EI & 090130-EI, Order No. PSC-10-0153-FOF-EI (March 17, 2010), pp. 172-75 (holding that the Commission has “consistently rejected the MDS [Minimum Distribution System] methodology on numerous occasions in the past....[and following review of prior decisions rejecting MDS, noted that it has] a long history of limiting the costs that are allocated on a customer basis and recovered through a customer charge.” The Commission did “not adopt the proposed minimum distribution system....”); *Final Order Rejecting Tariff Sheets; Resolving Contested Issues; Authorizing and Requiring Compliance Filings, Pacific Power & Light*, Washington Utilities and Transportation Commission, Docket No. UE-140762 (consolidated), Order 8 (March 25, 2015), p. 91 (The Commission rejected “the Company and Staff’s proposals to increase significantly the basic charge to residential customers. The Commission is not prepared to move away from the long-accepted principle that basic charges should reflect only ‘direct customer costs’ such as meter reading and billing. Including distribution costs in the basic charge and increasing it 81 percent, as the Company proposes in this case, does not promote, and may be antithetical to, the realization of conservation goals”).

Our rejection of the Minimum System in this case is consistent with prior decisions of this Commission and with the Company’s longstanding practice. DEP’s predecessor, Carolina Power & Light (“CP&L”), ceased use of the Minimum System method in 1987. *See* Order No. 87-902 (“The Company has discontinued its use of the theoretical minimum distribution system as a means of classifying portions of distribution-related costs to the customer component and allocating those costs based on the number of customers. In this case, the Company has classified those distribution costs

as demand and allocated them accordingly. The Company's change substantially lowered the amount of costs classified as customer-related.”). In an order granting a rate increase to CP&L the following year, the Commission affirmed its approval of CP&L’s decision to stop using the Minimum System method, rejecting an intervenor’s recommendation that CP&L use the method to determine the customer-related cost component of its distribution system. Order No. 88-864, Docket No. 88-11-E, 11 (August 29, 1988). The Commission is not persuaded by the explanations proffered by the Company’s witnesses in support of its decision to depart from prior practice and begin using an approach that this Commission had previously rejected.

2. The Company’s Use of the Minimum System Method To Design the Basic Facilities Charge

In this case, the Company designed the BFC to recover not only the non-controversial customer costs of the service drop, meter, billing, and customer service, but also the distribution system costs that it classified as “customer-related” using the Minimum System method. As a result, DEP proposed to triple the BFC for customers taking service under the standard residential tariff, from \$9.06 to \$29.00.

Although ORS did not explicitly address the Company’s use of the Minimum System method in its COSS, finding instead that the COSS was generally reasonable for use in this case, ORS did object to its impact on the Company’s rate design, characterizing DEP’s initial request to increase the BFC to \$29.00 as “extreme.” ORS Witness Hamm testified that an increase of this size “in any component of an electric bill” would be a disservice to all customers, especially harmful for low-income, low-usage customers. Tr. Vol. 7, 1372:4-23. ORS recommended instead that the BFC be

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
MAY __, 2019
PAGE 12

increased by no more than 25% of residential revenue increase approved by the Commission.

In rebuttal, DEP indicated that it would accept a BFC of \$19.03, equivalent to 50% of its requested increase to the BFC. Wheeler Rebuttal, Tr. Vol. 4, 711-10:3-21. In surrebuttal, ORS witness Michael Seaman-Huynh testified that his proposal to increase the BFC by no more than 25% of the revenue increase recommended by ORS would yield a BFC of \$11.78. Citing concerns raised by ORS and by public witnesses regarding the proposal to increase the BFC, on March 26, 2019, DEP filed a letter with the Commission indicating that it would not contest a BFC of \$11.78, as estimated by ORS. Though DEP is no longer seeking the \$29.00 BFC it says would be justified by the Minimum System method, DEP did not withdraw the testimony of its witnesses Gharthey-Tagoe, Wheeler, or Hager in support of the method.

DEP acknowledged that the only specific justification it offered for increasing the BFC was its use of the Minimum System in its COSS. Hager Direct, Tr. Vol. 4, 701-16:1-5; Docket No. 2018-319-E, Tr. Vol. 4, 671:25 - 672:12. Witness Gharthey-Tagoe acknowledged that the only basis for the initial proposal to increase the BFC to \$29.00 was the Company's Minimum System analysis. Tr. Vol. 3, 355:3-9.

As explained above, however, cost-causation principles do not support DEP's proposal to recover minimum distribution system costs on a per customer basis through the BFC. Designing rates to allow the Company to recover its actual distribution costs through the volumetric (or per kWh) rate is thus more equitable and appropriate. As SC NAACP et al. witness Wallach testified, this approach has the virtue of fairly matching higher-energy using customers' higher demands on the grid with proportional increases

in those customers' bills. Wallach Direct, Tr. Vol. 3, 254-24:10-14. In contrast, adopting the Company's proposal would result in lower-usage customers unfairly subsidizing a portion of the demand-related component of the distribution grid for higher-usage customers. Tr. Vol. 3, 1130-25:8-14.

Moreover, the COSS is the starting place, not the end point, of rate design. Docket No. 2018-319-E, Tr. Vol. 8, p. 1928:14-19. DEP witness Wheeler, agreed that "there's an art to rate design" and that there are "other considerations that you take into account in designing rates, like gradualism . . . and customer acceptance." Tr. Vol. 4, 738:10 – 739:1. Witnesses Wallach and Barnes also testified that the Company was wrong to apply the results of the Minimum System method directly to its proposed rate design. Tr. Vol. 3, 254-14:5 - 254-20:11; Tr. Vol. 5, 779-11:4 - 779-17:8; 779-40:4-10. In setting rates and charges, including the BFC, this Commission must consider general principles of ratemaking, as well as policy considerations.

3. General principles and policy objectives of ratemaking and their application to the BFC

ORS witness Seaman-Huynh testified that DEP's proposal failed to achieve core Bonbright principles of fair rate design:

The Company's proposal in the Application and the "alternative" discussed by Company witness Wheeler do address some of the Bonbright Principles; however, it falls far short in attributes 3, 4, 8, and 9. The Company's alternative rate design proposal does not have customer or intervenor support. The lack of public acceptability and drastic change in relation to the Company's historical rates fail to meet attributes #3 and #9 of the Bonbright Principles. The shifting of most costs to the fixed monthly BFC, and away from energy and demand charges, does not promote conservation (Bonbright Principle #4) and fails to promote new innovation and economic changes in demand and supply patterns (Bonbright Principle #8).

Tr. Vol. 6, 1101-4:10-18.

Rates should be designed to promote the efficient use of electricity. Setting rates that could undermine efforts to conserve electricity or participate in energy-efficiency programs will result in otherwise avoidable expenses for all customers. This concern was cited in the testimony of witnesses Wallach, Barnes, Howat, Hamm, and Ruoff. Tr. Vol. 3, 252:12-18, 254-6:6-7, 257:21 - 258:9; Tr. Vol. 5, 779-5:9-12; Tr. Vol. 3, 254-15:10-13; Tr. Vol. 7, 1369:3 -1373:1; Tr. Vol. 6, 1070:12 - 1071:8. As SC NAACP et al. witness Wallach testified, putting more of the customer's bill into unavoidable, fixed charges like the BFC, and reducing the volumetric rate correspondingly, will lead to increased electricity use. Mr. Wallach presented a review of studies on customer response to price signals, which showed that the Company's initial proposal to increase the BFC to \$29.00 would lead to a 4% rise in electricity usage in just a few years, undoing years of savings from the Company's energy-efficiency programs. Wallach Direct, Tr. Vol. 3, 254-30:6-16. Witness Hamm testified that an increase of this size would be "against the public policy of having people buy less electricity." Tr. Vol. 7, 1372:4-23. DEP Witness Gharney-Tagoe pointed to the Company's Neighborhood Energy Saver as an example of a program to help customers manage their bills, but the Company did not offer any rebuttal to the concern about the erosion in energy efficiency and conservation from an increase to the BFC. Gharney-Tagoe Direct, Tr. Vol. 3, 298-28:10-17.

Customer acceptance is another important consideration in designing rates. The public outcry in response to the initial proposal to more than triple the BFC showed that customers did not accept this new proposed rate design. Tr. Vol. 4, 738:21 - 739:1; Tr.

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
MAY __, 2019
PAGE 15

Vol. 3, 355:10 - 14. The Company's decision to scale back its request to an amount closer to that recommended by ORS also acknowledged the customer response to its initial proposal. DEP witness Gharthey-Tagoe, Tr. Vol. 3, 426:19 - 427:7; Tr. Vol. 4, 351:1-9. Another relevant rate design consideration is simplicity. The Minimum System method introduces unnecessary complexity to the cost of service study and is a hard concept to explain to the public. The alternative proposed by SC NAACP et al. and Vote Solar, the Basic Customer method, has the virtue of simplicity and ease of explanation. In addition, it is in the interest of administrative simplicity to continue rejecting the use of the Minimum System method in the Company's cost of service study. As noted by witnesses Barnes and Wallach, there are several subjective elements of the Minimum System analysis (for instance, the use of the truly minimum-sized equipment installed in the grid versus the smallest-sized equipment currently used by DEP).

Fairness to ratepayers is an important policy consideration that this Commission takes into account in determining whether to approve a utility's proposed rates and charges. Unfairness to customers was a key reason cited by the National Association of State Utility Consumer Advocates ("NASUCA") in a 2015 resolution opposing increases in fixed charges:

NASUCA urges state public service commissions to reject gas and electric utility rate design proposals that seek to substantially increase the percentage of revenues recovered through the flat, monthly customer charges on residential customer utility bills -proposals that disproportionately and inequitably increase the rates of low usage customers, a group that often includes low-income, elderly, and minority customers, throughout the United States.

Hearing Ex. 56, National Association of State Utility Consumer Advocates ("NASUCA") Resolution 2015-1, Opposing Gas and Electric Utility Efforts to Increase Delivery

Service Customer Charges. Consistent with the NASUCA resolution, SC NAACP et al. witness Howat and ORS witness Ruoff presented testimony about the regressive effects of higher customer charges on low-income customers, who on average use less electricity than higher-income customers. Howat Direct, Tr. Vol. 3, 279-10 - 279-17; Tr. Vol. 8, 1061-4:11 - 1061-5:9; Tr. Vol. 6, 1064:22 -1066:9. ORS Witness Hamm testified that “every time you raise the basic facilities charge, you’re having somewhat of a negative impact on especially low-income, low-consumption customers being able to control the savings they get from trying to avoid the next kilowatt.” Tr. Vol. 7, 1370:3-9. ORS Witness Ruoff testified that there are even more people living in poverty in the South Carolina DEP service territory than in the DEC territory. Tr. Vol. 6, 1064:1-17.

DEP did not present sufficient evidence to rebut the evidence presented by witnesses Howat and Ruoff about the hardship that an increase in the BFC would pose to low- and fixed-income customers. DEP’s one attempt to rebut this evidence was offered by Company witness Wheeler, who provided a chart on page 7 of his rebuttal testimony that showed usage information for DEP customers who earn less than \$30,000 per year. While intended to support witness Wheeler’s contention, the chart instead shows that the majority of customers that the Company identified as earning less than \$30,000 per year use less than the Company stated average of 1,100 kWh per month. Tr. Vol. 6, 1058:21 - 1059:9. In this regard, Witness Wheeler’s chart is consistent with the evidence presented by ORS, intervenors SC NAACP et al., and many public witnesses that higher fixed charges hurt lower-income customers.³

³ It is also unclear whether Mr. Wheeler’s chart is based on reliable data. Mr. Howat testified in surrebutal that the Company: (a) could not independently validate the income information, which came from a proprietary consumer database; (b) does not have income data for all of its customers, so the chart is

Consistent with the weight and credibility of the evidence, the Commission finds that DEP's low-income customers, on average, use less electricity than higher-income customers and thus, would be disproportionately harmed by increases to the BFC.

The question remains whether the Commission should approve an increase to the BFC, and if so, to what amount. An increase to \$11.78, the amount the Company indicated that it would "not contest," would represent nearly a 30% increase over the current BFC, a much higher increase than the overall increase in revenue allowed by this Commission. In addition, under ORS's proposed revenue increase and rate design, the \$2.72 increase in the monthly BFC (from \$9.06 to \$11.78) would constitute 40.5% of the overall \$6.71 increase in the "typical" (1000 kWh) household bill (from the current typical bill of \$122.49 to the ORS Proposed \$129.20, after accounting for the effects of the EDIT rider). Hearing Exhibit 57, Surrebuttal Ex. MSH-5. Such an increase in the BFC is far out of proportion to the overall increase in revenue allowed for the residential class and is not supported by the record. Due to the impact of the BFC on low-income customers, who tend to use less electricity on average, witness Wallach recommended that the BFC for the residential rate classes be set at \$9.23, consistent with the Basic Customer Method's approach to calculating the per customer cost to connect a customer to the grid. Wallach Direct, Tr. Vol. 3, 254-31:16 -254-32:2. The Commission agrees with this recommendation, and accordingly, finds and concludes that it is just and reasonable to allow an increase in the residential BFC to \$9.23.

incomplete; and (c) used an income-level threshold that includes some households that are not low-income, including one- or two-person households or college students. Howat Surrebuttal, Tr. Vol. 3, 281-2:20 - 281-5:2.

In addition, the EDIT Rider, which is designed to return money to ratepayers that was over-collected in prior years for payment of deferred federal income taxes (as a result of the reduction in the federal corporate income tax rate), should apply proportionally to the volumetric portion of the bill and the BFC, not to the volumetric portion alone as proposed by DEP. Barnes Direct, Tr. Vol. 5, 779-63:17 -779-68:12. Such a rate design would more fairly apportion the EDIT rider to customers, providing more equitable return of the over-collected revenue between higher-usage and lower-usage customers.

B. Bill Format

The Company does not currently include the BFC as a line item on customer bills. Instead, the BFC and the volumetric charge are combined and presented as a single amount on residential customers' bills. Docket No. 2-18-319-E, Tr. Vol. 5, 1000:19-24;4 Hearing Ex. 21 (sample residential customer bill). DEP witness Donald Schneider testified that the Advanced Metering Infrastructure for which the Company seeks cost recovery in this case gives customers more detailed usage information, so that they can make more informed choices about their energy use. Docket No. 2018-319-E, Tr. Vol. 5, 997:3-16.5 DEP witness Retha Hunsicker testified that the Company is designing a new bill format that will be enabled by DEP's Customer Information System ("CIS"), to be implemented in the spring of 2021, which will include the BFC as a line item. Docket No. 2018-319-E, Tr. Vol. 5, 1002:6-11; Tr. Vol. 5, 1003:4-12. The Commission finds that

⁴ At the hearing in this case, Ms. Hunsicker acknowledged her testimony in response to questions from counsel for SC NAACP et al. during the hearing in Docket No. 2018-319-E, and the Commission took judicial notice of Ms. Hunsicker's testimony as reproduced in Volume 5, pages 997 through 1007 of the official transcript of the hearing in that case. Tr. Vol. 3, 490:4-10.

⁵ At the hearing in this case, Mr. Schneider acknowledged his testimony in response to questions from counsel for SC NAACP et al. during the hearing in Docket No. 2018-319-E, and the Commission took judicial notice of Mr. Schneider's testimony as reproduced in Volume 5, pages 997 through 1007 of the official transcript of the hearing in that case. Tr. Vol. 3, 490:4-10.

a bill format that specifically breaks out the BFC as a line item on the customer bill will help customers more easily view and understand their bill and their energy usage. Accordingly, the Company shall implement a new bill format for each rate schedule, specifically breaking out the BFC as a line item on the bill, as soon as such a format is enabled by implementation of the CIS, but no later than the spring of 2021.

C. Collection and Reporting of Data Related to Energy Security and Bill Payment Difficulties

SC NAACP et al. witness Howat testified about the need for additional data that would be necessary to obtain a clearer understanding of service disconnection rates for nonpayment and other indicators of home energy security for DEP's residential customers. In support of this recommendation, witness Howat provided a copy of the 2006 NARUC Resolution Supporting the Gathering of Data (JH-3) and the NASUCA Resolution 2011-2 Urging States to Gather Uniform Statistical Data on Billings, Arrearages and Disconnections of Residential Gas and Electric Service (Ex. JH-4). Mr. Howat also provided examples of data reporting protocols used by public utilities in Ohio, Illinois, Pennsylvania, and Ohio. Hearing Ex. 12.

The best available data from the 2009 Residential Energy Consumption Survey showed elevated disconnection rates for households living at or below 150% of the federal poverty level and disturbing disparities on the basis of race. Pursuant to this Commission's Order in Docket No. 2006-193-EG, DEP and other public utilities are required to submit quarterly reports on service disconnections for nonpayment. The Company reported over 18,000 disconnections for nonpayment in 2018. But without more detailed information, for example, a breakdown of residential and non-residential

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
MAY __, 2019
PAGE 20

disconnections, it is difficult to draw meaningful conclusions from those raw numbers alone. In rebuttal, DEP offered testimony from Lesley Quick, who raised Company concerns with collecting the data recommended by Mr. Howat. Quick Rebuttal, Tr. Vol. 5, 984-8:16 - 984-11:11. But nothing in the testimony of Witness Quick indicates that additional data could not be collected or made available by the Company that would provide this Commission and the public with useful information about bill payment difficulties faced by DEP's most vulnerable customers.

IT IS THEREFORE ORDERED THAT:

1. The Minimum System method shall be eliminated from DEP's cost of service study and rate design. The Company shall henceforth use the Basic Customer method in its cost of service studies and in its rate design.
2. The Company's request to increase the Basic Facilities Charge for residential customers is denied. The BFC shall be increased only by to \$9.23, reflecting the customer-related cost calculated using the Basic Customer method.
3. The Company should revise the Rider EDIT-1 to a percentage of bill-based mechanism, which would apply on both a volumetric basis and on the basis of the BFC, rather than on a volumetric basis alone.
4. The Commission orders the Company to work with ORS and interested intervenors to develop a protocol for collecting and making available additional indicators of residential customer payment and affordability difficulties, taking into account the limits of the Company's current Customer Information System.

DOCKET NO. 2018-318-E – ORDER NO. 2019-____
MAY __, 2019
PAGE 21

5. DEP shall file compliance tariffs consistent with this Order within ____ days of receipt of the Order.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Comer H. Randall, Chairman

ATTEST:

Justin T. Williams, Vice Chairman